

PROGRAM FOR REHABILITATION OF THE ROAD BETWEEN SAN LORENZO AND MUHAN (MANAGUA-RAMA HIGHWAY)

(NI-0146)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Ministry of Transport and Infrastructure (MTI)	
Amount and source:	IDB: (FSO)	US\$ 35,000,000
	Local:	<u>US\$ 7,000,000</u>
	Total:	US\$ 42,000,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years
	Interest rate:	1% during first 10 years, 2% over the following 30 years
	Inspection and supervision:	1.0%
	Credit fee:	0.5%
Objectives:	<p>The general objective of the program is to reduce transport costs and facilitate the movement of passengers and freight between the Atlantic zone and the interior of the country. This will contribute to a revival of agriculture and livestock production in the area, and help integrate communities with the rest of the country. The program's specific objectives are to refurbish the road between San Lorenzo and Muhan on the Managua-Rama highway; modernize institutional organization in the highway sector; and implement a strategy to improve road maintenance.</p>	
Description:	<p>The program has three components: (i) an initial component will support refurbishment work on the 88.1 km stretch between San Lorenzo and Muhan, as part of the rehabilitation of the 287.9 km Managua-Rama highway—the main overland route to the Atlantic; (ii) the second component will support the strategy to execute an action plan agreed with the government guaranteeing the consolidation of sustainable improvements in the management and execution of road maintenance by the conclusion of this operation. The action plan is intended to consolidate the process that began with</p>	

legislation setting up the Highway Maintenance Fund (FOMAV); and (iii) the third component will support plans for MTI institutional reform being implemented by the government, including rationalization of MTI's institutional structure in order to enhance its efficiency and the changes needed as a result of the creation of FOMAV.

**The Bank's
country and
sector strategy:**

This program will continue the process initiated with current operations to improve Nicaragua's highway infrastructure, by refurbishing its network of highways and rural roads. This will be supported by institutional strengthening in the subsector and implementation of a mechanism to guarantee the future sustainability of road maintenance. Apart from rebuilding the road network affected by natural disasters, one of the country's priorities as defined in the national transport plan (PNT) is to rehabilitate the trunk road network in order to facilitate integration, both nationally and throughout Central America. The program will also lend continuity to the support needed in consolidating the modernization process that began by adjusting the sector's functions and organic structure and approval of the law creating FOMAV.

**Environmental
and social
review:**

The activities envisaged in this program are intended to reduce the adverse effects of inadequate road maintenance, so they are likely to be of positive environmental impact and high social benefit. The refurbishment works to be undertaken do not involve major construction difficulties, nor do they require population resettlement or alterations to the course of the road, given its excellent original construction and location on stable soil. Nonetheless, in order to minimize any possibility of environmental damage, the program contains general sustainability criteria and environmental control procedures that include verifying compliance with the country's environmental legislation and regulations. Environmental impact monitoring will be carried out by MTI's Environmental Control Directorate (DCA), and supervising firms will be required to employ an environmental specialist.

Benefits:

Both the refurbishment component and those relating to institutional support and maintenance sustainability are likely to generate significant benefits for users of the road network and lead to more efficient use of the financial resources channeled to the highway sector. Rehabilitation work on the road segment between San Lorenzo and Muhan will produce savings in vehicle operating costs, together with shorter journey times; in addition, people living in the hinterland of this road, who are mostly engaged in agricultural work, will enjoy better and possibly cheaper bus and light goods vehicle services. This population may also obtain better access to education and health services and to centers of employment. Moreover, by setting up

FOMAV to administer maintenance contracts, as well as restructuring State-owned enterprises affiliated to the Corporation of Regional Construction Firms (COERCO) and strengthening MTI's capacity to manage the contracting process, it should prove possible to streamline procedures and gain better control over the costs of civil works.

Risks:

MTI has considerable experience as executor of programs and projects for a variety of multilateral development agencies; it has also been institutionally strengthened thanks to technical assistance from IDB and the World Bank (WB), and this will enable it to run new program adequately. In this it will be supported by consulting services to resolve specific problems arising in the course of the operation.

Lessons learned in previous transport projects show that highway sector sustainability requires a maintenance policy with stable financing mechanisms, together with private-sector participation to undertake construction and maintenance activities on the highway network. In the maintenance area, the approval and implementation of the FOMAV legislation and the action plan to restructure COERCO are intended to guarantee sustainability and encourage private-sector participation in road maintenance. To minimize the risk of delay in implementing FOMAV, contractual conditions have been agreed with the borrower to ensure that FOMAV is up and running before the first disbursement is made.

The government's invitation to the private sector, along with the execution of current highway programs, have generated a major revival and growth in local engineering and construction firms. No difficulties are foreseen in the capacity of local firms to respond to the larger quantity and size of the program's refurbishment and maintenance works and FOMAV implementation.

**Special
contractual
clauses:****A. Conditions precedent to the first disbursement**

The executing agency will present the following to the Bank: (i) a detailed action plan for program execution; (ii) evidence that FOMAV is up and running; that it has been allocated the necessary resources from the national budget to perform the maintenance activities included in the targets agreed for the first year of program execution; and that an agreement has been signed between MTI and FOMAV setting out the commitments indicated in paragraph 3.4; (iii) evidence that it has a suitable accounting-financial system in place to manage the proceeds of Bank and local counterpart funding; and (iv) evidence that FOMAV has executed at least 25% of its 2002 budget and is executing four contracts for sustainable maintenance of the highway network.

B. Other special contractual conditions

Before the program's civil works are awarded, the executing agency will present evidence of having contracted consulting services for their supervision.

The loan contract will also include the Bank's standard conditions, relating among other things to technical and environmental aspects, audit, reports, inspections, evaluations, maintenance, the hiring of consulting services and goods procurement.

Poverty-targeting and social sector classification:

The program qualifies as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also qualifies as a poverty-targeted investment (PTI) on geographic grounds, since about 61% of the population living in the hinterland of the San Lorenzo-Muhan highway have incomes below the poverty line. The borrower will be making use a portion of the 10 percentage points in additional financing corresponding to the PTI classification.

Exceptions to Bank policy:

No exceptions to Bank policies are envisaged.

Procurement:

Civil works contracting, procurement of goods and ancillary services and the hiring of consulting services will all be carried out in accordance with the corresponding Bank procedures and policies (paragraph 3.7), subject to the following limits:

	Civil works	Goods	Consulting services
International competitive bidding (ICB)	US\$3,000,000 and up	US\$300,000 and up	Over US\$200,000
Local competitive bidding (LCB)	Between US\$300,000 and US\$3,000,000	Between US\$100,000 and US\$300,000	Under US\$200,000
Three quotes	Under US\$300,000	Under US\$100,000	